

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sebewaing Light and Water Department	County Huron
Fiscal Year End 3/31/07	Opinion Date 8/17/07	Date Audit Report Submitted to State 8/28/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	No other reports required		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-453-3122		
Street Address 7274 Hartley Street		City Pigeon	State MI	Zip 48755
Authorizing CPA Signature		Printed Name Brian Hazard, CPA		License Number 1101014007

**SEBEWAING LIGHT AND
WATER DEPARTMENT
VILLAGE OF SEBEWAING
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2007 AND 2006**

**SEBEWAING LIGHT & WATER DEPARTMENT
VILLAGE OF SEBEWAING**

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INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners
Sebewaing Light and Water Department
Village of Sebewaing
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the business-type activities of the Sebewaing Light and Water Department, a component unit of Village of Sebewaing, Michigan, as of March 31, 2007 and 2006 and for the years then ended, which comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sebewaing Light and Water Department, Sebewaing, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sebewaing Light and Water Department, Sebewaing, Michigan, as of March 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through v, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Sebewaing Light and Water Department, Sebewaing, Michigan's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

August 17, 2007

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

This annual report consists of a series of financial statements. The Balance Sheets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Light & Water Department as a whole and present a longer-term view of the Department's finances.

The Light & Water Department as a Whole

The Department's combined assets increased by 6.2% from a year ago – increasing from \$11.218 million to \$11.919 million. The Department also experienced larger power purchase costs on a per kilowatt basis and more power purchased when comparing calendar year 2005 to 2006. This year 60% of revenue was used for electric power purchase cost compared to 58% of revenue from last year.

In a condensed format, the table below shows a comparison of the net assets as of the current date to the prior year. The water system typically losses money annually. With major capital improvements in the system and a commitment to accountability with water usage in the village these losses have been at a decreasing rate.

Water and Electric Combined

The following table shows, in a condensed format, the net assets as of the current date:

	Department Business Activities March 31, 2007	Department Business Activities March 31, 2006
Current Assets	\$ 5,714,639	\$ 5,588,895
Capital Assets	5,204,221	4,629,228
Restricted Assets	1,000,000	1,000,000
Total Assets	<u>\$11,918,860</u>	<u>\$11,218,123</u>
Long – Term Debt	\$ 91,487	\$ 81,905
Current Liabilities	318,497	216,555
Total Liabilities	<u>\$ 409,984</u>	<u>\$ 298,460</u>
Net Assets:		
Investment in Capital Assets	\$ 5,204,221	\$ 4,629,228
Unrestricted	6,304,655	6,290,435
Total Net Assets	<u>\$11,508,876</u>	<u>\$10,919,663</u>

Unrestricted net assets—the part of net assets that can be used to finance day to day operations increased by \$14,220. This represents an increase of approximately .2%. The level of unrestricted net assets for activities stands at \$6,304,655 or approximately 1.75 times the annual operating expenses. The department has relied on interest income from the investments of these unrestricted assets for balancing its budget.

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

Light & Water Department Change in Net Assets

	Departments Business Activities March 31, 2007	Departments Business Activities March 31, 2006
Revenue		
Charges for services	<u>\$3,532,134</u>	<u>\$3,093,120</u>
Nonoperating Revenue		
Interest on investments	304,071	148,913
Miscellaneous	20,346	20,781
Property taxes	102,098	96,374
State Shared Revenue	5,074	5,074
Crop income	<u>2,045</u>	<u>1,935</u>
Total Nonoperating Revenue	<u>659,723</u>	<u>273,077</u>
Operating and Admin. Expenses		
Production	2,264,279	1,929,557
Internet	56,426	48,289
Distribution	398,240	357,715
General and administration	<u>892,698</u>	<u>830,085</u>
Total	3,611,643	3,165,646
Income before contributions	<u>580,212</u>	<u>200,551</u>
Contributions	9,000	9,000
Change in net assets	<u>\$ 589,212</u>	<u>\$ 209,551</u>

The Department's change in net assets was increased due to increased electric sales as well as higher interest income on investments. The Department increased expenses approximately \$445,997 while income increased approximately \$439,014 due to the previously mentioned items in this report. Production expense as well as income was up due to the addition of load at one of the industrial customers. Approximately 800 Kwh of load was added to the processing season to control emissions from the processing plant. The calendar year 2005 power purchases were 41,997,706 Kwh, and in calendar year 2006 power purchases were 44,971,000 Kwh with sales and purchases up by approximately the same percentages.

Business-Type Activities

The Department's business-type activities consist of electric and water services. We provide water and electric to the residents of the Village of Sebewaing and some of the surrounding township residents.

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

The Light & Water Department's Funds

The Light & Water fund financial statements provide detailed information about the most significant funds. The Light & Water Commission creates funds to manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millage. While some of the Department's balance sheet indicates a healthy savings, the utility system requires a large investment, especially the aging water system of which a large percentage dates back to the 1930's. The Department is also positioning itself for the large exposure it has to changes to the electric power supply costs and P.A. 141 (customer choice of electric power supplier). Its power costs make up 60% of the Department's budget and has a contract with DTE Energy that ends in 2010. Purchase power costs for fiscal year 2006-2007 were \$2,003,130.

In 2005, the Light & Water Commission requested a public hearing to set electric rates that would coincide with the current DTE contract. The recommended rate is intended to soften the large rate impact that would occur when the current contract is up in 2010 by increasing rates over the next ten years by \$.002/kwh per year.

The Department is committed to improving the water quality to the village residents and maintains a five year plan to replace the aging distribution system. A local contractor currently has a contract for water main replacement on Beach, Ninth and Tenth Streets. The total engineering estimate for this project is \$200,000 (engineering and contingencies included). Also, the Department will need to update worn line construction vehicles and equipment in the upcoming fiscal year.

This financial report is intended to provide our customers with a general overview of the Light and Water Department's finances and to show the accountability for the money it receives. If you have questions about this report or need additional information we welcome you to contact the Light and Water Department office. Contact Supt. Jeff Schock, Sebewaing Light and Water Department, 108 W. Main Street, Sebewaing, MI 48759, 989-883-2700.

FINANCIAL STATEMENTS

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

BALANCE SHEETS - PROPRIETARY FUND

	March 31,	
	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 3,308,263	\$ 3,170,850
U.S. Government securities	1,875,995	1,878,699
Accounts receivable - Trade	71,735	49,335
Accrued interest receivable	24,304	20,842
Prepaid insurance	65,418	74,804
Inventories	368,924	394,365
TOTAL CURRENT ASSETS	<u>5,714,639</u>	<u>5,588,895</u>
 CAPITAL ASSETS	 10,556,056	 9,629,027
LESS ACCUMULATED DEPRECIATION	<u>(5,351,835)</u>	<u>(4,999,799)</u>
CAPITAL ASSETS - NET	<u>5,204,221</u>	<u>4,629,228</u>
 RESTRICTED ASSETS:		
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>
TOTAL RESTRICTED ASSETS	<u>1,000,000</u>	<u>1,000,000</u>
 TOTAL ASSETS	 <u>\$ 11,918,860</u>	 <u>\$ 11,218,123</u>

	March 31,	
	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS):		
Accounts payable - Trade	\$ 282,440	\$ 182,412
Due to other government	156	
Accrued salaries and wages	9,881	8,243
Withheld and accrued payroll taxes and retirement	3,287	3,676
Deferred revenue	5,074	5,074
Customer deposits	17,661	17,150
TOTAL CURRENT LIABILITIES	<u>318,497</u>	<u>216,555</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	91,487	81,905
TOTAL NONCURRENT LIABILITIES	<u>91,487</u>	<u>81,905</u>
TOTAL LIABILITIES	<u>409,984</u>	<u>298,460</u>
NET ASSETS:		
Investment in capital assets	5,204,221	4,629,228
Unrestricted	6,304,655	6,290,435
TOTAL NET ASSETS	<u>11,508,876</u>	<u>10,919,663</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,918,860</u>	<u>\$ 11,218,123</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND**

	For the Year Ended March 31,	
	<u>2007</u>	<u>2006</u>
CHARGES FOR SERVICES	\$ 3,532,134	\$ 3,093,120
OPERATING AND ADMINISTRATIVE EXPENSES:		
Production	2,264,279	1,929,557
Internet	56,426	48,289
Distribution	398,240	357,715
General and administrative	892,698	830,085
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	3,611,643	3,165,646
OPERATING (LOSS)	<u>(79,511)</u>	<u>(72,526)</u>
NONOPERATING REVENUE:		
Interest on investments	304,071	148,913
Capital grant	226,088	
Miscellaneous	20,346	20,781
Property taxes	102,098	96,374
State shared revenue	5,074	5,074
Net crop income	2,045	1,935
TOTAL NONOPERATING REVENUE	659,723	273,077
INCOME BEFORE CONTRIBUTIONS	<u>580,212</u>	<u>200,551</u>
CONTRIBUTIONS	9,000	9,000
CHANGE IN NET ASSETS	<u>589,212</u>	<u>209,551</u>
NET ASSETS - BEGINNING	10,919,663	10,710,112
NET ASSETS - ENDING	<u>\$ 11,508,876</u>	<u>\$ 10,919,663</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

	For the Year Ended March 31,	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,509,734	\$ 3,198,550
Payments to suppliers for goods and services	(2,197,081)	(2,089,448)
Payments to employees	(521,023)	(510,725)
Payments for fringe benefits	(265,589)	(244,611)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>526,041</u>	<u>353,766</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(927,029)	(444,028)
Capital grant received	226,088	
Contributed capital received	<u>9,000</u>	<u>9,000</u>
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(691,941)</u>	<u>(435,028)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	303,313	156,832
NET INCREASE IN CASH AND RESTRICTED CASH	<u>137,413</u>	<u>75,570</u>
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	4,170,850	4,095,280
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 4,308,263</u>	<u>\$ 4,170,850</u>
Cash Reconciliation:		
Cash	\$ 3,308,263	\$ 3,170,850
Restricted cash	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>\$ 4,308,263</u>	<u>\$ 4,170,850</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

	For the Year Ended March 31,	
	<u>2007</u>	<u>2006</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (79,511)	\$ (72,526)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	352,036	301,164
Decrease in fixed assets due to obsolete equipment		960
Miscellaneous revenue	22,391	22,716
Property taxes	102,098	96,374
State shared revenue	5,074	5,074
(Increase) decrease in current assets:		
Accounts receivable - Trade	(22,400)	105,430
Prepaid insurance	9,386	(61,204)
Inventories	25,441	(20,296)
Increase (decrease) in current liabilities:		
Accounts payable	100,028	(32,621)
Due to other fund	156	(1,077)
Accrued salaries and wages	1,638	1,711
Accrued compensated absences	9,582	6,251
Withheld and accrued payroll taxes and retirement	(389)	260
Customer deposits	511	1,550
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 526,041</u>	<u>\$ 353,766</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Sebewaing Light and Water Department is a municipal owned utility company that provides electric and water service to the residents of the Village of Sebewaing. The Department has three classes of customers: residential, commercial and industrial. Approximately 50% of the Department's gross revenue is attributable to its six industrial customers which range from the agri-service industry to the tool and die industry. The Sebewaing Light and Water Department grants credit to its customers, all of whom are either located in the Village of Sebewaing or border the Village.

The Sebewaing Light and Water Department is one combined operating entity. The information presented in the financial statements reflecting separate information for the Light Department and Water Department is for informational and management purposes only.

Basis of Presentation:

The financial activities of the Department are recorded in one fund categorized as an Enterprise Fund. Enterprise Funds are of the Proprietary Fund Type and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Sebewaing Light and Water Department is a component unit of the Village of Sebewaing and its financial statements are included in the financial statements of the Village of Sebewaing. However, for purposes of these financial statements, the financial position, results of operations, and cash flows of the Sebewaing Light and Water Department are being presented separate from those of the Village of Sebewaing.

Basis of Accounting:

The accounting policies of the Department conform to generally accepted accounting principles as applicable to governmental units following the accrual basis of accounting as required for Proprietary Fund Types. Therefore, revenue is recognized when earned (utility service is provided to customer) and expenses are recognized when incurred (goods or services are received). The department has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, except for those that conflict with or contradict with GASB pronouncements.

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents:

Cash and cash equivalents of the Department include cash on hand and all deposits with financial institutions, including all certificates of deposit. Investments in U.S. Treasury Securities are excluded from cash and cash equivalents.

Accounts Receivable:

The Department uses the direct write-off method to recognize bad debt expense related to uncollectible accounts.

Capital Assets:

Buildings, generation assets, transmission assets, furniture and equipment are stated at cost, less accumulated depreciation. Expenditures that increase values or extend useful lives are capitalized and routine maintenance and repairs are charged to expense in the period incurred. Depreciation is calculated using the straight-line method at rates that are designed to depreciate the cost of the assets over their estimated useful lives ranging from 5 to 50 years.

Net Assets:

The net assets of the Department consist of the following:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA interpretation 3 (Revenue Recognition - Property Taxes). The Village of Sebewaing collects the property taxes levied for the purpose of operating, maintaining, replacing and expanding the water system and then transfers the taxes collected to the Sebewaing Light and Water Department where they are deposited into a separate bank account.

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences:

Light and Water Department employees are allowed to accumulate a maximum of one hundred twenty (120) days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of one hundred twenty (120) days is paid annually at one-half of the employee's regular pay rate. There is no accumulation of unused vacation days allowed. The Department accrues a liability for compensated absences which meet the following criteria:

1. The Department's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Department has accrued a liability for sick pay which has been earned but not taken by Light and Water Department employees. The liability for compensated absences is recorded in proprietary fund types as a noncurrent accrued liability in accordance with GASB Statement 16.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – CASH AND DEPOSITS:

The carrying amount of cash and deposits with financial institutions of the Sebewaing Light and Water Department amounted to \$4,308,263 and \$4,170,850 at March 31, 2007 and 2006, respectively. The bank balance as of March 31, 2007 and 2006 was \$4,672,501 and \$4,172,100, respectively. Deposits with financial institutions are categorized as follows:

	<u>March 31,</u>	
	<u>2007</u>	<u>2006</u>
Amount insured by the FDIC	\$1,700,000	\$1,594,058
Uncollateralized	<u>2,972,501</u>	<u>2,578,042</u>
Total deposits with financial institutions	<u>\$4,672,501</u>	<u>\$4,172,100</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 2 - CASH AND DEPOSITS: (CONTINUED)

All deposits categorized as uncollateralized are the property of the Sebewaing Light and Water Department, an Enterprise Fund.

The amount of uncollateralized deposits throughout the fiscal year did not significantly exceed the amount of uncollateralized deposits at March 31, 2007.

Michigan Compiled Laws Section 129.91, authorizes the Department to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States Government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Department's deposits are in accordance with statutory authority. The Light and Water Commission has authorized management to deposit and invest in the accounts of federally insured banks and savings and loan associations within the State of Michigan and bonds, securities and other obligations of the United States, or any agency of the United States in which the principal and interest is fully guaranteed by the United States. The Department's deposits and investments are within the authorization as set forth by the Light and Water Commission. However, the Department's investment policy does not specifically address credit risk, custodial credit risk, concentration of credit risk, and interest rate risk. It does include policies on safety of capital, diversification, liquidity, and return on investment.

NOTE 3 - SHORT-TERM INVESTMENTS:

At March 31, 2007 and 2006, the Department's investments include the following:

	<u>2007</u>	<u>March 31,</u> <u>2006</u>
U.S. Treasury Securities (at cost, which approximates market value) *	<u>\$1,875,995</u>	<u>\$1,878,699</u>
Total U.S. Treasury Securities	<u>\$1,875,995</u>	<u>\$1,878,699</u>
Weighted Average Maturity (Days)	52.9	53.9

* The U.S. Treasury securities mature in various amounts from April 5, 2007 to June 28, 2007 at interest rate yields that range from 5.062% to 5.185%.

The Department owns the U.S. Treasury Securities directly and has purchased the securities through a "Treasury Direct" account with the Federal Reserve Bank of Chicago. Therefore, the investment would be classified as a Category 1 investment (Insured or registered, with securities held by the Department or its agent in the Department's name).

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 4 - INVENTORIES:

Inventories are stated at cost determined on the first-in, first-out method. Inventories consisted of the following:

	<u>2007</u>	<u>March 31,</u> <u>2006</u>
Light Department:		
Poles, towers, fixtures	\$ 31,138	\$ 24,249
Line material	109,502	105,262
Line transformers	141,885	155,270
Meters	5,774	7,293
Street lighting	11,663	15,846
Customer service – Lamps	933	5,165
Office supplies	600	600
Lamps – Resale	6,457	9,968
Fuel oil, lubricants	11,047	17,212
Internet		3,908
Customer service – Material	<u>1,500</u>	<u>1,500</u>
Total light department	<u>320,499</u>	<u>346,276</u>
Water Department:		
Distribution mains, services	10,523	11,882
Fire hydrants	11,473	6,907
Meters	4,701	6,158
Maintenance supplies	21,378	22,795
Office supplies	<u>350</u>	<u>350</u>
Total water department	<u>48,425</u>	<u>48,092</u>
Total light & water department	<u>\$368,924</u>	<u>\$394,365</u>

NOTE 5 – CAPITAL GRANT:

During the year ended March 31, 2007, the Department received a capital grant in the amount of \$226,088 through the Village of Sebewaing, Michigan. The purpose of the grant was to reimburse the Department for the cost of the electric and water improvements that were a part of the infrastructure improvements for the Lapeer Metal Stamping project that the Village conducted.

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 6 - CAPITAL ASSETS:

Depreciation expense for the years ended March 31, 2007 and 2006, amounted to \$352,036 and \$301,164, respectively. Capital assets and accumulated depreciation consisted of the following:

	<u>Balance March 31, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance March 31, 2007</u>
Light Department:				
Land - Nondepreciated	\$ 235,901	\$ 6,874		\$ 242,775
Buildings	1,225,697	313,142		1,538,839
Equipment	5,557,815	170,961		5,728,776
Construction in progress	<u>56,939</u>	<u>336,815</u>	<u>\$ 165,217</u>	<u>228,537</u>
Total Light Department	<u>7,076,352</u>	<u>827,792</u>	<u>165,217</u>	<u>7,738,927</u>
Water Department:				
Land - Nondepreciated	14,989			14,989
Buildings	7,043			7,043
Equipment	2,456,136	338,961		2,795,097
Construction in progress	<u>74,507</u>		<u>74,507</u>	
Total Water Department	<u>2,552,675</u>	<u>338,961</u>	<u>74,507</u>	<u>2,817,129</u>
Total Capital Assets	<u>9,629,027</u>	<u>1,166,753</u>	<u>239,724</u>	<u>10,556,056</u>
Less: Accumulated depreciation	<u>4,999,799</u>	<u>352,036</u>		<u>5,351,835</u>
Net Capital Assets	<u>\$4,629,228</u>	<u>\$814,717</u>	<u>\$ 239,724</u>	<u>\$5,204,221</u>

NOTE 7 – CONSTRUCTION IN PROGRESS:

Included in construction in progress are the following projects that the Sebewaing Light and Water Department had in progress as of March 31, 2007: Substation and engineering for the Lapeer Metal Stamping project \$216,798; and Village office improvements of \$11,739. The Lapeer Metal Stamping electric project will be completed during 2007.

NOTE 8 - RESTRICTED ASSETS:

Restricted cash and deposits held by the Sebewaing Light and Water Department amounted to \$1,000,000 and \$1,000,000, as of March 31, 2007 and 2006, respectively. Deposits are restricted for the following purposes:

	<u>March 31, 2007</u>	<u>2006</u>
Building and equipment replacement for the Light and Water Department	\$1,000,000	\$1,000,000
Total restrictions on deposits	<u>\$1,000,000</u>	<u>\$1,000,000</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 9 - RETIREMENT SYSTEM - MERS OPERATED:

Pension Plan:

Plan Description: The Sebewaing Light and Water Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Sebewaing Light and Water Department as part of the Village of Sebewaing pension plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

Annual Pension Cost: For the year ended March 31, 2007, the Sebewaing Light and Water Department's portion of the annual pension cost of \$64,103 for the plan was equal to the Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three-year trend information of the Village's plan follows:

	<u>Fiscal year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 75,967	\$ 103,944	\$ 114,440
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	4,065,945	4,147,907	4,325,940
Actuarial accrued liability (entry age)	5,323,901	5,507,223	5,639,628
Unfunded AAL	1,257,956	1,359,316	1,313,688
Funded ratio	76%	75%	77%
Covered payroll	828,818	930,050	927,927
UAAL as a percentage of covered payroll	152%	146%	142%

NOTE 10 - DEFERRED COMPENSATION:

Employees of the Sebewaing Light and Water Department may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State and Local Governments).

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 10 – DEFERRED COMPENSATION: (CONTINUED)

The deferred compensation plan is available to all employees of the Department. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

NOTE 11 – CONTINGENT LIABILITIES:

The Department is a reimbursing employer for purposes of unemployment insurance claims against the Department. The Department reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 12 – RELATED PARTY TRANSACTIONS:

As a matter of convenience, the Sebewaing Light and Water Department collects sewer, trash and fines billed by the Village of Sebewaing along with its own electric and water utility billings from customers. The collections for sewer, trash and fine charges are then periodically transferred to the Village's accounts. During the years ended March 31, 2007 and 2006, the Light and Water Department received \$38,600 and \$39,428, respectively, from the Village of Sebewaing's General and Sanitary Sewer Funds for electric service for street lighting and lift station operation.

NOTE 13 – RISK MANAGEMENT:

General Liability:

Sebewaing Light and Water Department participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$10.9 million for real and personal property losses and \$10 million for liability losses. Sebewaing Light and Water Department is required to pay annual premiums to the Michigan Municipal Liability and Property Pool for the liability coverage. No supplemental premium assessment is required by the Michigan Municipal Liability and Property Pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Workers' Compensation:

Sebewaing Light and Water Department, as a component unit of the Village of Sebewaing, purchased commercial insurance coverage for losses related to workers' compensation claims.

Employee Health Care:

Sebewaing Light and Water Department purchased commercial insurance coverage for its employees and their dependents.

SUPPLEMENTAL INFORMATION

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**DEPARTMENTAL BALANCE SHEETS
March 31, 2007**

ASSETS	<u>LIGHT</u>	<u>WATER</u>	<u>TOTAL</u>
CURRENT ASSETS:			
Cash	\$ 3,096,735	\$ 211,528	\$ 3,308,263
U.S. Government Securities	1,875,995		1,875,995
Accounts receivable - Trade	64,213	7,522	71,735
Accrued interest receivable	24,304		24,304
Prepaid insurance	52,334	13,083	65,418
Inventories	320,499	48,425	368,924
TOTAL CURRENT ASSETS	<u>5,434,081</u>	<u>280,558</u>	<u>5,714,639</u>
CAPITAL ASSETS			
LESS ACCUMULATED DEPRECIATION			
CAPITAL ASSETS - NET	<u>7,738,927</u>	<u>2,817,129</u>	<u>10,556,056</u>
	<u>(4,514,017)</u>	<u>(837,818)</u>	<u>(5,351,835)</u>
	<u>3,224,910</u>	<u>1,979,311</u>	<u>5,204,221</u>
RESTRICTED ASSETS:			
Certificates of deposit	1,000,000		1,000,000
TOTAL RESTRICTED ASSETS	<u>1,000,000</u>		<u>1,000,000</u>
TOTAL ASSETS	<u>\$ 9,658,990</u>	<u>\$ 2,259,870</u>	<u>\$ 11,918,860</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**DEPARTMENTAL BALANCE SHEETS
March 31, 2007**

	<u>LIGHT</u>	<u>WATER</u>	<u>TOTAL</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)			
Accounts payable - Trade	\$ 282,440		\$ 282,440
Due to other government		156	156
Accrued salaries and wages	6,594	3,287	9,881
Withheld and accrued payroll taxes and retirement	3,287		3,287
Deferred revenue		5,074	5,074
Customer deposits	17,661		17,661
TOTAL CURRENT LIABILITIES	<u>309,981</u>	<u>8,516</u>	<u>318,497</u>
NONCURRENT LIABILITIES:			
Interdepartmental adjustment	(2,089,744)	2,089,744	
Accrued compensated absences	70,389	21,098	91,487
TOTAL NONCURRENT LIABILITIES	<u>(2,019,354)</u>	<u>2,110,842</u>	<u>91,487</u>
TOTAL LIABILITIES	<u>(1,709,374)</u>	<u>2,119,358</u>	<u>409,984</u>
NET ASSETS:			
Investment in capital assets	3,224,910	1,979,311	5,204,221
Unrestricted	8,143,455	(1,838,800)	6,304,655
TOTAL NET ASSETS	<u>11,368,364</u>	<u>140,512</u>	<u>11,508,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,658,990</u>	<u>\$ 2,259,870</u>	<u>\$ 11,918,860</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
LIGHT DEPARTMENT**

	FOR THE YEARS ENDED			
	MARCH 31, 2007		MARCH 31, 2006	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
CHARGES FOR SERVICES	<u>\$ 3,314,031</u>	<u>100.0 %</u>	<u>\$ 2,880,444</u>	<u>100.0 %</u>
OPERATING AND ADMINISTRATIVE EXPENSES:				
Production	2,167,908	65.4	1,845,358	64.1
Internet	56,426	1.7	48,289	1.6
Distribution	367,956	11.1	312,562	10.9
General and administrative	<u>697,164</u>	<u>20.9</u>	<u>637,975</u>	<u>22.1</u>
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>3,289,454</u>	<u>99.2</u>	<u>2,844,184</u>	<u>98.8</u>
OPERATING INCOME	<u>24,577</u>	<u>0.8</u>	<u>36,260</u>	<u>1.2</u>
NONOPERATING REVENUE:				
Interest on investments	290,516	8.8	143,284	5.0
Capital grant	226,088	6.8		
Miscellaneous	20,346	0.6	20,781	0.7
Net crop income	<u>2,045</u>	<u>0.1</u>	<u>1,935</u>	<u>0.1</u>
TOTAL NONOPERATING REVENUE	<u>538,995</u>	<u>16.3</u>	<u>166,000</u>	<u>5.8</u>
CHANGE IN NET ASSETS	<u>563,572</u>	<u>17.1 %</u>	<u>202,260</u>	<u>7.0 %</u>
NET ASSETS - BEGINNING OF YEAR	10,804,792		10,602,532	
NET ASSETS - END OF YEAR	<u>\$ 11,368,364</u>		<u>\$ 10,804,792</u>	

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER DEPARTMENT**

	FOR THE YEARS ENDED			
	MARCH 31, 2007		MARCH 31, 2006	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
CHARGES FOR SERVICES	<u>\$ 218,103</u>	<u>100.0 %</u>	<u>\$ 212,676</u>	<u>100.0 %</u>
OPERATING AND ADMINISTRATIVE EXPENSES:				
Production	96,371	44.2	84,199	39.6
Distribution	30,285	13.9	45,153	21.2
General and administrative	195,534	89.7	192,110	90.3
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>322,190</u>	<u>147.7</u>	<u>321,462</u>	<u>151.1</u>
OPERATING (LOSS)	<u>(104,087)</u>	<u>(47.7)</u>	<u>(108,786)</u>	<u>(51.1)</u>
NONOPERATING REVENUE:				
Property taxes	102,098	46.8	96,374	45.3
State shared revenue	5,074	2.3	5,074	2.4
Interest earned	13,555	6.2	5,629	2.6
TOTAL NONOPERATING REVENUE	<u>120,727</u>	<u>55.4</u>	<u>107,077</u>	<u>50.3</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>16,640</u>	<u>7.7</u>	<u>(1,709)</u>	<u>(0.8)</u>
CONTRIBUTIONS	<u>9,000</u>	<u>4.1</u>	<u>9,000</u>	<u>4.2</u>
CHANGE IN NET ASSETS	<u>25,640</u>	<u>11.8 %</u>	<u>7,291</u>	<u>3.4 %</u>
NET ASSETS - BEGINNING OF YEAR	<u>114,871</u>		<u>107,580</u>	
NET ASSETS - END OF YEAR	<u>\$ 140,512</u>		<u>\$ 114,871</u>	

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULES OF OPERATING AND ADMINISTRATIVE EXPENSES
LIGHT DEPARTMENT**

	FOR THE YEARS ENDED			
	MARCH 31, 2007		MARCH 31, 2006	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
PRODUCTION:				
Supervision and operation labor	\$ 44,322	1.3 %	\$ 72,555	2.5 %
Fuel - Natural gas	25,608	0.8	19,435	0.7
Supplies	6,970	0.2	6,391	0.2
Maintenance and repairs	11,334	0.3	28,219	1.0
Maintenance and repairs - Labor	76,193	2.3	48,007	1.7
Purchased power	2,003,130	60.4	1,659,237	57.6
Building maintenance	351	0.0	11,514	0.4
TOTAL PRODUCTION	<u>2,167,908</u>	<u>65.4</u>	<u>1,845,358</u>	<u>64.1</u>
INTERNET:				
Administration	4,039	0.1	1,530	0.1
Labor			772	
Maintenance and repairs	3,660	0.1	4,592	0.2
Depreciation	32,180	1.0	26,951	0.9
Subcontractor labor	3,551	0.1	463	
T1 monthly fee	12,996	0.4	13,981	0.5
TOTAL INTERNET	<u>56,426</u>	<u>1.7</u>	<u>48,289</u>	<u>1.6</u>
DISTRIBUTION:				
Supervision and operation labor	75,914	2.3	61,335	2.1
Line materials	13,217	0.4	22,690	0.8
Customer service	60,912	1.8	26,444	0.9
Transportation - Truck	41,178	1.2	37,397	1.3
Supplies	7,856	0.2	6,244	0.2
Maintenance and repairs	160,605	4.8	151,845	5.3
Building maintenance	8,274	0.2	6,607	0.2
TOTAL DISTRIBUTION	<u>367,956</u>	<u>11.1</u>	<u>312,562</u>	<u>10.9</u>
GENERAL AND ADMINISTRATIVE:				
Meter reading and collection labor	54,663	1.6	56,907	2.0
Supplies - Office	23,796	0.7	16,683	0.6
Insurance - General	58,355	1.8	58,480	2.0
Interest expense	300	0.0	300	
Building maintenance	7,074	0.2	4,694	0.2
Professional and consulting fees	11,836	0.4	15,280	0.5
Bad debts	2,947	0.1	1,588	0.1
Retirement	48,382	1.5	41,374	1.4
Dues, meetings and travel	34,809	1.1	37,253	1.3
Advertising	3,424	0.1	4,161	0.1
Education and training	5,687	0.2	1,167	
Depreciation	248,827	7.5	209,467	7.3
Employee insurance	133,464	4.0	127,525	4.4
Office equipment	11,946	0.4	15,188	0.5
Taxes - Social security	30,996	0.9	29,126	1.0
Telephone	20,656	0.6	18,782	0.7
TOTAL GENERAL AND ADMINISTRATIVE	<u>697,164</u>	<u>20.9</u>	<u>637,975</u>	<u>22.1</u>
TOTAL OPERATING AND ADMINISTRATIVE	<u>\$ 3,289,454</u>	<u>99.2 %</u>	<u>\$ 2,844,184</u>	<u>98.8 %</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULES OF OPERATING AND ADMINISTRATIVE EXPENSES
WATER DEPARTMENT**

	FOR THE YEARS ENDED			
	MARCH 31, 2007		MARCH 31, 2006	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
PRODUCTION:				
Supervision and operation labor	\$ 41,179	18.9 %	\$ 35,725	16.8 %
Purchased power - Electric	22,495	10.3	11,702	5.5
Supplies	12,024	5.5	10,637	5.0
Maintenance and repairs	20,671	9.5	26,136	12.3
TOTAL PRODUCTION	<u>96,371</u>	<u>44.2</u>	<u>84,199</u>	<u>39.6</u>
DISTRIBUTION:				
Water testing	3,380	1.5	1,362	0.6
Supplies	1,390	0.6	2,476	1.2
Maintenance and repairs	25,515	11.7	41,315	19.4
TOTAL DISTRIBUTION	<u>30,285</u>	<u>13.9</u>	<u>45,153</u>	<u>21.2</u>
GENERAL AND ADMINISTRATIVE:				
Meter reading and collection labor	44,640	20.5	43,864	20.6
Insurance - General	14,982	6.9	14,620	6.9
Bad debts	581	0.3	722	0.3
Retirement	14,501	6.6	14,006	6.6
Depreciation	71,029	32.6	64,746	30.4
Employee insurance	40,028	18.4	43,311	20.4
Professional and consulting fees			982	0.5
Taxes - Social security	9,773	4.5	9,859	4.6
TOTAL GENERAL AND ADMINISTRATIVE	<u>195,534</u>	<u>89.7</u>	<u>192,110</u>	<u>90.3</u>
TOTAL OPERATING AND ADMINISTRATIVE EXPENSE	<u>\$ 322,190</u>	<u>147.7 %</u>	<u>\$ 321,462</u>	<u>151.1 %</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2007**

	CAPITAL ASSETS			ACCUMULATED DEPRECIATION			NET ASSET COST
	BALANCE MARCH 31, 2006	ADDITIONS	RETIREMENTS	BALANCE MARCH 31, 2006	PROVISION FOR DEPRECIATION	RETIREMENTS	
LIGHT DEPARTMENT:							
Land and land improvements	\$ 235,901	\$ 6,874		\$ 57,944	\$ 1,183	\$ 59,127	\$ 183,648
Power house building	554,195			297,890	17,660	315,550	238,645
Office building	36,298	150,000		34,429	3,369	37,798	148,500
Warehouse buildings	307,339			172,592	11,930	184,522	122,817
Oil storage tanks, pump	39,034			21,003	1,405	22,408	16,626
Electric plant waterwell	1,875			1,875		1,875	
Fiber line	102,867			102,867	7,595	36,712	66,155
Internet equipment	93,109	17,663		32,083	24,585	56,668	54,104
Generating equipment	1,759,407	2,133		1,761,540	44,083	1,272,019	489,521
Substation	327,865	163,142		163,867	15,937	179,804	311,203
Accessory equipment	315,472			315,472	6,503	299,259	16,213
Switchboard equipment	554,801			554,801	17,252	327,281	227,520
Poles, towers, fixtures	158,610	2,301		74,508	5,936	80,444	80,467
Overhead conductors service	1,057,902	38,418		507,906	33,876	541,782	554,538
Line transformers	241,615	13,385		127,079	7,634	134,713	120,287
Meters	49,272	4,633		53,905	1,677	23,917	29,988
Street lighting	66,881	5,207		39,749	2,018	41,767	30,321
Office furniture, fixtures	163,534	2,529		124,145	11,337	135,482	30,581
Utility equipment	458,376	84,692		396,656	24,787	421,443	121,625
Transportation equipment	495,062			299,206	42,240	341,446	153,616
Construction in progress	56,939	336,815		228,537			228,537
TOTAL LIGHT DEPARTMENT	7,076,352	827,792	165,217	4,233,010	281,007	-	3,224,910
WATER DEPARTMENT:							
Land and improvements	14,989			2,211	501	2,712	12,277
Wells	193,069	42,044		75,675	5,582	81,257	153,856
Well houses	16,087			12,011	127	12,138	3,949
Elevated tank	451,735			246,526	16,401	262,927	188,808
Pumping equipment	128,794	5,703		70,795	4,340	75,135	59,362
Maintenance buildings	7,043			7,043		7,043	
Distribution mains, service	1,446,985	280,636		244,063	32,484	276,547	1,451,074
Fire hydrants	23,663			8,262	460	8,722	14,941
Meters	116,004	6,053		48,170	3,801	51,971	70,086
Tools, work equipment	65,299	4,525		46,716	4,433	51,149	18,675
Transportation equipment	14,500			5,317	2,900	8,217	6,283
Construction in progress	74,507		74,507				
TOTAL WATER DEPARTMENT	2,552,675	338,961	74,507	766,789	71,029	-	1,979,311
TOTAL LIGHT AND WATER DEPARTMENT	\$ 9,629,027	\$ 1,166,753	\$ 239,724	\$ 4,999,799	\$ 352,036	\$ -	\$ 5,204,221

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSET ADDITIONS
FOR THE YEAR ENDED MARCH 31, 2007**

LIGHT DEPARTMENT:

Generating equipment:

5 hp motor and pump assembly for Power plant well	\$ 2,133
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Land:

Thede property	6,874
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Building:

Office building 108 W Main Street	150,000
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Internet Service:

Alvarion subscriber units and antenna	4,950
900mhz subscriber units	7,762
10-900-930 mhz antennas	1,044
Internet subscriber units	3,907
	<u>17,663</u>

Office Furniture & fixtures:

HP laserjet printer	2,529
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Line Transformers:

Inventory installed during fiscal year	13,385
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Substation:

Michigan Sugar	163,142
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Overhead conductors service:

Inventory installed during fiscal year	38,418
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**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSET ADDITIONS
FOR THE YEAR ENDED MARCH 31, 2007**

Poles, towers and fixtures:	
Inventory installed during fiscal year	<u>2,301</u>
Street lighting:	
Inventory installed during fiscal year	<u>5,207</u>
Construction in progress:	
Lapeer Metal Stamping electric improvements	182,825
Michigan Sugar	142,251
Village office	<u>11,739</u>
	<u>336,815</u>
Electric meters:	
Inventory installed during fiscal year	<u>4,633</u>
Utility equipment:	
New utility truck and tools	71,300
Substation monitoring	<u>13,392</u>
	84,692
TOTAL LIGHT DEPARTMENT	<u>827,792</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSET ADDITIONS
FOR THE YEAR ENDED MARCH 31, 2007**

WATER DEPARTMENT:

Pumping Equipment:

Well control equipment	<u>5,703</u>
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Distribution mains, service:

Lapeer Metal Stamping	32,549
7th, 8th and Beech streets water main	244,867
Water service - Campground	1,861
Inventory installed during fiscal year	<u>1,359</u>
	<u>280,636</u>

Wells:

Replace pump well 1 and 3	<u>42,044</u>
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Water meters:

Inventory installed during fiscal year	<u>6,053</u>
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Tools and equipment:

3 1.5 ton ratchet lever chains	1,444
Crimping tool	<u>3,081</u>
	4,525

TOTAL WATER DEPARTMENT

338,961

TOTAL LIGHT AND WATER DEPARTMENT

\$ 1,166,753

To the Board of Commissioners
Sebewaing Light and Water Department
Sebewaing, Michigan

In planning and performing our audit of the financial statements of the business-type activities of Sebewaing Light and Water Department as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Sebewaing Light and Water Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Due to the limited number of people working in the office, many critical duties are combined and given to the available employees. Presently, each individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. We recommend the Department segregate bank account reconciliation duties from cash receipts and/or cash disbursements duties.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

The personnel of the Sebewaing Light and Water Department have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of the Sebewaing Light and Water Department do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standard #112.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Nietzsche & Faupel, P.C.".

Nietzke & Faupel, P.C.
Sebewaing, Michigan

August 17, 2007